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As I see

OUR MORTGAGE AND CONSUMER DEBT LOAD

LAST week a House Veterans' Affairs Subcommittee urged an easy money policy for the veteran who wants to buy a house. This subcommittee urged the elimination of the 2% downpayment requirement, a boost in direct loans by the Veterans Administration, and a ban or limit on home loan discounts.

I am opposed to all of these recommendations. Home mortgage debt last year increased by more than $13 billion, the biggest increase in any year in the history of the United States. This increase in home mortgage debt accompanied the biggest increase we have ever had in consumer debt, which increased by more than $6 billion. At the same time that debt was increasing, personal saving was decreasing.

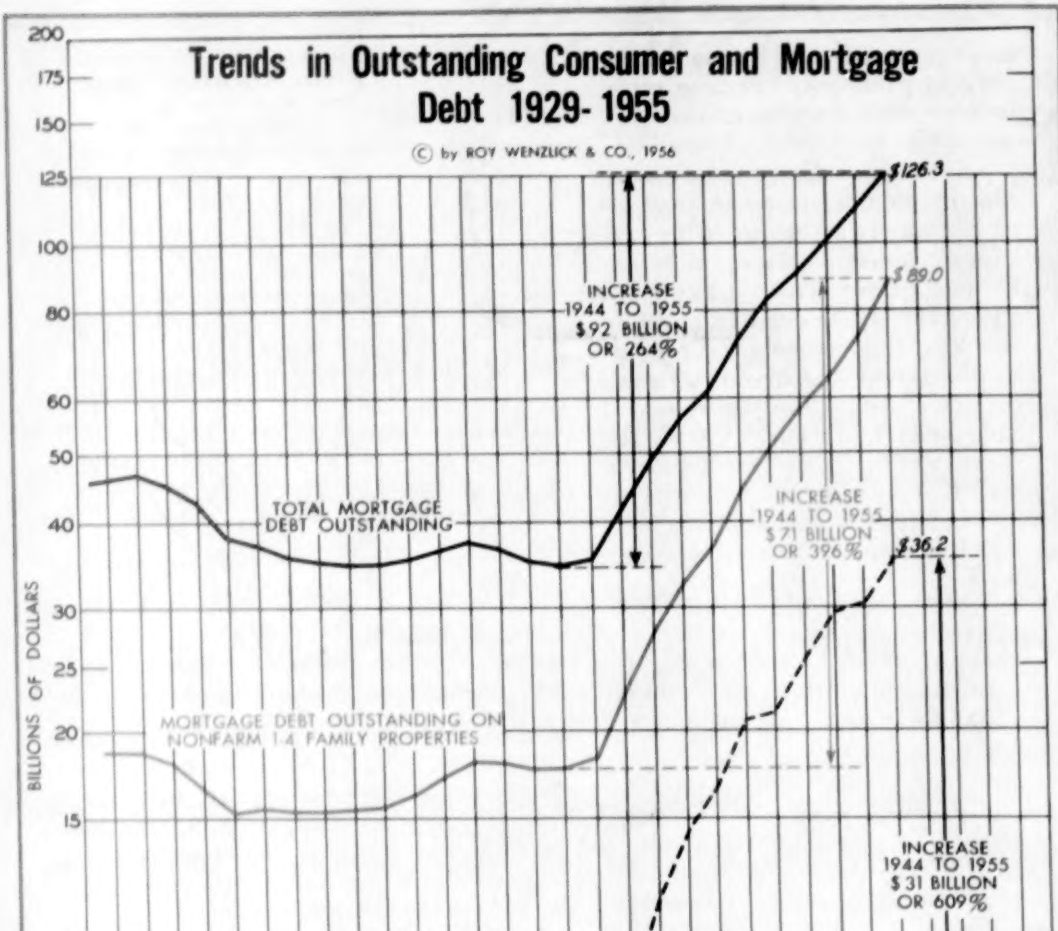
In order to get some perspective on the debt problem I have charted mortgage debt from 1929 to the present, both in dollar figures and as a percentage of disposable personal income. I have also charted consumer debt on the same basis. These charts are shown on pages 72 and 73.

Before we draw any conclusions, let us study these charts to see what they might tell us about our debt situation. The chart on the following page showing consumer and mortgage debt depicts quite graphically the terrific increases which have occurred since 1944. Total mortgage debt has gone from about $35 billion to more than $126 billion (September 1955 figure), an increase of $92 billion, or 264%. This, of course, includes commercial, residential, farm and nonfarm mortgage debt.

Mortgage debt outstanding on nonfarm one- to four-family properties during this same period went from about $18 billion to $89 billion, an increase of $71 billion, or 396%.

Consumer credit outstanding in this same period went from $5.1 billion to $36.2 billion, an increase of $31 billion, or 609%.

These increases, to say the least, are alarming, as they would indicate that at



Trends in Outstanding Consumer and Mortgage Debt 1929-1955
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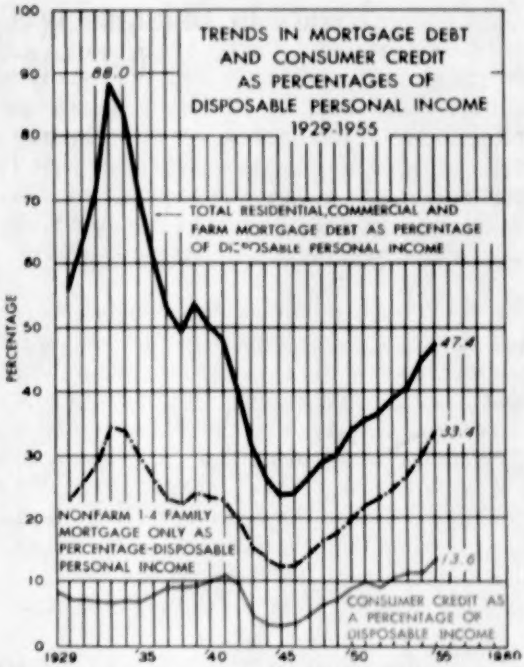
$126.3
$89.0
$36.2
INCREASE 1944 TO 1955 $92 BILLION OR 264%
INCREASE 1944 TO 1955 $71 BILLION OR 396%
INCREASE 1944 TO 1955 $31 BILLION OR 609%
TOTAL MORTGAGE DEBT OUTSTANDING
MORTGAGE DEBT OUTSTANDING ON NONFARM 1-4 FAMILY PROPERTIES
CONSUMER CREDIT OUTSTANDING
BILLIONS OF DOLLARS
200
175
150
125
100
80
60
50
40
30
25
20
15
10
8
6
5
4
3
2
BANK COLLAPSE
WORLD WAR II
U.S. ENTRY
V.J. DAY
KOREAN WAR
KOREAN TREATY
1929
'30
'35
'40
'45
'50
'55
1960

least a considerable portion of our current prosperity has been gotten by borrowing from the future.



Because of the general inflationary picture, however, and the rather radical change in the purchasing power of money, it is better to consider these figures in a slightly different form before reaching final conclusions regarding the size of our mortgage and consumer debt. For this reason, I have prepared the chart to the right, which shows the trends in mortgage and consumer debt as percentages of disposable income each year from 1929 to the present. A different kind of picture now starts emerging. If total mortgage debt is considered, it will be noticed that in 1929 it ran approximately 56% of disposable income in that year, that as the depression deepened it finally rose to 88% of disposable income in 1933, after which it dropped until 1944, when it was down to less than 24%. Since 1944, however, the rise has been consistent and steady, bringing it at the present time to 47.4%. In comparison with the level in 1929, this does not look too alarming, but a reversal in business conditions, which would bring about a shrinkage in personal disposable income, could send this percentage skyrocketing again as it did during the depression of the 1930's.

If we consider only mortgages on nonfarm one- to four-family structures as a percentage of disposable personal income, we find a totally different picture. On this basis the average mortgage debt at the present time in relationship to disposable income is higher than it has been in any business year of the past with the exception of only 2 years at the very bottom of the depression. A study of consumer credit as a percentage of disposable income as shown on this chart would indicate also that consumer credit is now at an alltime high - higher in relationship to income than it was at any time during good or bad periods in the past.

Studying these charts has caused me to arrive at the following conclusions:

1. Both mortgage and consumer credit have increased at a very rapid rate during the past 9 years, and regardless of whether the present debt load is too heavy or not, it is quite apparent that the rate of increase from year to year in the amount of new mortgage debt and new consumer debt is unsustainable.

2. If we do not increase the rate at which mortgage debt and consumer debt are being extended, the time will come shortly - first for consumer debt, later for mortgage debt - when the repayment burden will equal the amount of new indebtedness entered into each year. When this happens there will no longer be any stimulation in the figures, as we will have to repay debts incurred in the past with dollar amounts at least equal to the new debts incurred. Then, should any reaction occur in general business, the rate at which new debt is assumed would decrease, and for a period of time the repayment load on past debts would exceed the amount secured from new indebtedness.

3. It should be kept in mind that the tremendous increase in nonfarm one- to four-family mortgage debt does not necessarily subtract as much income from the earnings of the average family as might at first be supposed, as the interest and principal payments on this debt made by the average family are in many cases not greatly in excess of what the family would otherwise pay in rent for its housing accommodation. In a large percentage of cases, interest and principal payments have been substituted for rent payments without increasing by a great percentage the housing portion of the consumer budget. It should also be kept in mind that the much wider percentage of home ownership today in comparison with the late 1920's and the 1930's would mean that the mortgage debt is now distributed over a far larger dollar value of properties.

4. I am not at all convinced that our present mortgage and consumer aebt is too great to be carried without difficulty in times of normal business. My principal worries at present are that the rate of increase we have been experiencing cannot be sustained, and that a period of readjustment in general business could increase the burden tremendously in a relatively short time. This could act as an unstabilizing influence in that it would reduce expenditures for new construction and for consumer goods faster than incomes would drop, as the repayment burden would exceed the volume of new commitments on mortgages and consumer purchases.

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